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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

COMMISSIONERS**DOCKETED**

GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

JAN 20 2012

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
LIVCO WATER COMPANY FOR APPROVAL OF
A RATE INCREASE.

DOCKET NO. W-02121A-11-0213

DOCKET NO. W-02121A-11-0257

IN THE MATTER OF THE APPLICATION OF
LIVCO WATER COMPANY FOR AUTHORITY
TO INCUR LONG-TERM DEBT.

DECISION NO. **72748****ORDER**

Open Meeting
January 10 and 11, 2012
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT**Procedural History**

1. On May 23, 2011, Livco Water Company ("Livco" or "Company") filed the above-captioned application for an increase in rates.
2. On June 10, 2011, Livco filed an Affidavit of Mailing Customer Notice of the rate application.
3. On June 23, 2011, Livco filed revisions to the rate application.
4. On June 28, 2011, the Commission's Utilities Division ("Staff") filed its Letter of Sufficiency indicating that Livco satisfied the requirements of Arizona Administrative Code ("A.A.C.") R14-2-103 for the rate application, and classifying the Company as a Class D utility.
5. On June 28, 2011, Livco filed the above-captioned financing application. The financing application requests approval of a Water Infrastructure Financing Authority ("WIFA") loan in the amount of \$30,000 to fund the renovation of a 250,000 gallon storage tank.

1 6. On July 14, 2011, Livco filed an Affidavit of Publication of Notice of the financing
2 application.

3 7. On August 9, 2011, Staff filed a Motion to Consolidate the rate application and the
4 financing application.

5 8. By Procedural Order issued August 16, 2011, the Motion to Consolidate was granted.

6 9. On September 6, 2011, after conducting an investigation of Livco's proposed rates and
7 charges for water service and the financing request, Staff filed its Staff Report. The Staff Report
8 indicated that any party wishing to file comments to the Staff Report should file them with the
9 Commission's Docket Control by 4:00 p.m. on or before September 16, 2011.

10 10. On September 15, 2011, Staff filed a Notice of Filing Revised Schedule.

11 11. On September 16, 2011, Livco filed its Comments to the Staff Report.

12 12. On August 24, 2011, a Procedural Order was issued directing Staff to file a Response
13 to the Comments, and directing that the Response include any updated schedules, if applicable.

14 13. On October 14, 2011, Staff filed a Response to Livco's Comments and Revised
15 Schedules ("Response").

16 14. On October 26, 2011, Livco filed a Reply to the Response ("Reply").

17 15. On November 17, 2011, a Procedural Order was issued extending the time period
18 prescribed by A.A.C. R14-2-103(B)(11)(d) for 30 days in order to allow sufficient time for the
19 review of Livco's Reply.

20 **Background**

21 16. Pursuant to authority granted by the Commission, Livco is an Arizona public service
22 corporation providing water utility service in the communities of Concho Valley and Old Concho
23 Townsite, which are located approximately 15 miles west and 18 miles southwest, respectively, of St.
24 Johns, along Highway 61 in Apache County, Arizona.

25 17. Livco's present rates and charges for water service were set in Commission Decision
26 No. 70308 (April 24, 2008) and are based on a test year ended December 31, 2006.

27 18. Staff performed an on-site field inspection of the Company's water system on June 30,
28 2011. The system consists of two wells, two storage tanks, three booster systems and a distribution

1 system serving 373 customers as of December 2010. The system has an emergency intertie with the
 2 City of St. Johns and the ability to purchase water at 325 gallons per minute ("GPM"). The Company
 3 also provides water service via a 2 inch master meter to the Old Concho Townsite, which is operated
 4 as a separate, consecutive system serving 30 to 35 customers. The Old Concho Townsite is located
 5 approximately one mile north of the Concho Valley subdivisions.

6 **Rate Application**

7 19. During the test year ended December 31, 2010, the Company provided water service
 8 to an average of 378 customers. The majority of the customers are residential users served by 5/8" x
 9 3/4" meters.

10 20. Average and median water usage by residential users during the test year were 6,211
 11 gallons per month and 3,475 gallons per month, respectively.

12 21. The water rates and charges for Livco at present, as proposed by Livco, and as
 13 recommended by Staff, are as follows:

	Present Rates	Proposed Company	Rates Staff
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$15.50	\$20.62	\$18.50
3/4" Meter	17.75	23.61	23.84
1" Meter	27.00	35.91	36.26
1-1/2" Meter	50.00	66.50	67.15
2" Meter	68.00	117.04	118.18
3" Meter	248.00	329.84	332.12
4" Meter	387.75	515.71	520.84
6" Meter	775.00	1,030.75	1,041.00
Old Concho Townsite 2" Interconnect	124.00	164.92	166.53
<u>COMMODITY RATE CHARGE:</u>			
Charge per 1,000 gallons			
<u>Residential – 5/8" x 3/4" Meter</u>			
0 to 3,000 gallons	\$1.25	\$1.78	\$1.50
3,001 to 10,000 gallons	2.00	2.84	2.74
Gallons in excess of 10,000	2.40	3.41	4.52
<u>Commercial – 5/8" x 3/4" Meter</u>			
0 to 10,000 gallons	2.00	2.84	2.74
Gallons in excess of 10,000	2.40	3.41	4.52
<u>Commercial & Residential – 3/4" Meter</u>			
0 to 10,000 gallons	2.00	2.84	2.74
Gallons in excess of 10,000	2.40	3.41	4.52

Commercial & Residential - 1" Meter

0 to 24,000 gallons	2.00	2.84	2.74
Gallons in excess of 24,000	2.40	3.41	4.52

Commercial & Residential - 1-1/2" Meter

0 to 60,000 gallons	2.00	2.84	2.74
Gallons in excess of 60,000	2.40	3.41	4.52

Commercial & Residential - 2" Meter

0 to 150,000 gallons	2.00	2.84	2.74
Gallons in excess of 150,000	2.40	3.41	4.52

Old Concho Townsite 2" Interconnect

0 to 150,000 gallons	2.00	2.84	N/A
Gallons in excess of 150,000	2.40	3.41	N/A
0 to 400,000 gallons	N/A	N/A	2.74
Gallons in excess of 400,000	N/A	N/A	4.52

Commercial & Residential - 3" Meter

0 to 500,000 gallons	2.00	2.84	2.74
Gallons in excess of 500,000	2.40	3.41	4.52

Commercial & Residential - 4" Meter

0 to 830,000 gallons	2.00	2.84	2.74
Gallons in excess of 830,000	2.40	3.41	4.52

Commercial & Residential - 6" Meter

0 to 1,750,000 gallons	2.00	2.84	2.74
Gallons in excess of 1,750,000	2.40	3.41	4.52

Standpipe, Bulk Water

All gallons	5.00	5.00 ¹	9.42
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SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable Pursuant to A.A.C. R14-2-405)

	Current	Company Proposed	Staff Recommended	Staff Recommended	Staff Recommended
	<u>Total Charges</u>	<u>Total Charges</u>	<u>Service Line</u>	<u>Meter</u>	<u>Total Charges</u>
5/8" x 3/4" Meter	\$500.00	\$600.00	\$445.00	\$155.00	\$600.00
3/4" Meter	575.00	700.00	445.00	255.00	700.00
1" Meter	660.00	810.00	495.00	315.00	810.00
1-1/2" Meter	900.00	1,075.00	550.00	525.00	1,075.00
2" Turbine Meter	1,525.00	1,875.00	830.00	1,045.00	1,875.00
2" Compound Meter	2,220.00	2,720.00	830.00	1,890.00	2,720.00
3" Turbine Meter	2,165.00	2,715.00	1,045.00	1,670.00	2,715.00
3" Compound Meter	2,960.00	3,720.00	1,165.00	2,545.00	3,720.00
4" Turbine Meter	3,360.00	4,160.00	1,490.00	2,670.00	4,160.00
4" Compound Meter	4,265.00	5,315.00	1,670.00	3,645.00	5,315.00
6" Turbine Meter	6,035.00	7,235.00	2,210.00	5,025.00	7,235.00
6" Compound Meter	7,750.00	9,250.00	2,330.00	6,920.00	9,250.00

¹ In its application and in the application revisions filed on June 23, 2011, the Company requested a standpipe rate of \$7.10. However, in its Reply, the Company requested that the standpipe rate remain at \$5.00.

	Present Rates	Proposed Rates Company	Proposed Rates Staff
<u>SERVICE CHARGES:</u>			
Establishment	\$25.00	\$25.00	\$25.00
Establishment (After Hours)	40.00	40.00	N/A
Reconnection (Delinquent)	40.00	40.00	40.00
Service Charge (After Hours)	Cost	50.00	30.00
Meter Test (If Correct)	25.00	25.00	25.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-establishment (Within 12 months)	**	**	**
Re-establishment (Within 12 months after hours)	**	**	N/A
NSF Check	\$25.00	\$25.00	\$25.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	\$20.00	\$20.00	\$20.00
Late Payment Penalty – per month	1.50%	1.50%	1.50%
Moving Customer Meter (Customer Request)	***	***	***
<u>MONTHLY SERVICE CHARGE FOR FIRE SPRINKERS:</u>			
4" or Smaller	N/A	N/A	****
6"	N/A	N/A	****
8"	N/A	N/A	****
10"	N/A	N/A	****
Larger than 10"	N/A	N/A	****

* Per Commission Rule A.A.C. R14-2-403(B).

** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

*** Per Commission Rule A.A.C. R14-2-405.

**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

22. The application proposed total operating revenue of \$194,636, an increase of \$49,910, or 34.49 percent, over the Company's adjusted test year revenue of \$144,726.

23. Staff recommends total revenue of \$193,997, an increase of \$49,271, or 34.04 percent, over the Company's adjusted test year revenue of \$144,726.

Rate Base

24. The Company proposed an original cost rate base ("OCRB") of \$201,529. The Company did not propose a fair value rate base ("FVRB") that differs from OCRB.

25. Staff determined Livco's original cost rate base ("OCRB") to be \$217,031. This is a \$15,502 increase to Livco's proposed OCRB of \$201,529. This difference is due to Staff's adjustments to working capital.

26. With the adjustment to cash working capital based on the adjusted test year Operating

1 Expense determined herein, the Company's FVRB is determined to be \$217,206.

2 Operating Expense

3 27. The Company proposed test year operating expense of \$163,547. Based on its
4 analysis, Staff recommends total test year Operating Expense of \$166,966.

5 28. Staff made several adjustments to Livco's proposed test year operating expenses,
6 resulting in an increase of \$3,419, from \$163,547 to \$166,966. Staff's adjustments include a
7 reduction of \$304 in Purchased Power Expense, an increase of \$810 to Water Testing Expense, a
8 decrease of \$117 to Depreciation Expense, a decrease of \$2,000 to Rate Case Expense, and an
9 increase of \$5,030 to Income Tax Expense.

10 29. The Company proposed total Rate Case Expense of \$10,000, amortized over three
11 years, or \$3,333 annually. Staff recommends that the Company be authorized \$4,000 in Rate Case
12 Expense, normalized over three years, or \$1,333 annually. Staff based its recommendation on a study
13 of rate case expense for Class D water companies, on the fact that the Company's last rate case was
14 only three years ago, and on the fact that there are few contested issues.

15 30. The Company disagrees with Staff's analysis and Staff's adjustment to Rate Case
16 Expense. In its Reply, the Company argues that a utility should not be "penalized" for choosing to
17 use outside experts and legal counsel in rate case proceedings. The Company asserts that the Rate
18 Case Expense granted in Decision No. 70308 of \$13,500, normalized over three years, or \$3,375
19 annually, can be used to benchmark the reasonableness of its current request. The Company further
20 argues that Staff's study of Class D rate cases is flawed, and objects to inclusion in the study of some
21 rate cases for which no rate case expense was requested. Staff disagrees that companies with no rate
22 case expense claims should be excluded from the study, because the short form rate application used
23 by Class D and E water companies is designed to significantly reduce or eliminate rate case expense
24 by its simplified filing requirements and a "fill-in-the-blank" type format.

25 31. We agree with Staff and find that the Company's requested rate case expense of
26 \$10,000, normalized over three years, or \$3,333 annually, is outside the range of reasonableness for
27 this proceeding. As Staff points out, Class D and E rate applications are usually processed without a
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1 hearing, thereby shortening the timeframe for a decision and reducing rate case expense, including
2 the need to hire an attorney. However, we find that Rate Case Expense of \$8,199, normalized over
3 three years, or \$2,733 annually, is reasonable under the circumstances of this case, and will authorize
4 that amount.

5 32. The Company's adjusted test year Operating Expense is \$168,366.

6 Revenue Requirement

7 33. The Company's present water rates and charges produced test year Operating Revenue
8 of \$146,126. With Operating Expense of \$168,366, the Company had total adjusted test year
9 Operating Income of (\$22,240).

10 34. The water rates and charges proposed by the Company would produce Operating
11 Revenue of \$194,636 and adjusted Operating Expenses of \$174,423, resulting in an Operating
12 Income of \$20,213 for a 10.03 percent rate of return on FVRB, or an operating margin of 10.39
13 percent. The Company's proposal would constitute a \$48,510, or 33.20 percent, increase over test
14 year revenues.

15 35. The water rates and charges as recommended by Staff would produce total Operating
16 Revenue of \$193,997 and adjusted Operating Expenses of \$172,304, resulting in an Operating
17 Income of \$21,693, for a 10.00 percent rate of return on FVRB, or an 11.18 percent operating margin.
18 Staff's recommendation constitutes a \$47,871, or 32.76 percent, increase over adjusted test year
19 revenues.

20 36. A reasonable revenue requirement for the Company in this proceeding is \$195,397.
21 The water rates and charges approved herein will produce total Operating Revenue of \$195,397 and
22 adjusted Operating Expenses of \$173,704, resulting in an Operating Income of \$21,693 for a 9.99
23 percent rate of return on FVRB, and an 11.10 percent operating margin. This constitutes a \$49,271,
24 or 33.72 percent, increase over adjusted test year revenues.

25 Rate Design

26 37. Staff recommends that the current inverted residential 5/8 x 3/4-inch meter three tier
27 rate design authorized in Decision No. 70308 remain in place, with a first tier cutoff of 3,000 gallons,
28

1 and a second tier cutoff of 10,000 gallons. Staff's recommendation increases the commodity charge
2 from \$1.25 to \$1.50 per thousand gallons for monthly usage of 3,000 gallons or less, and adds the
3 additional revenue requirement primarily to the third tier of usage, in excess of 10,000 gallons.
4 Staff's recommended Old Concho Townsite Interconnect commodity rates have been redesigned to
5 reflect the residential nature of the 35 to 40 customers who ultimately receive service via the
6 interconnect.

7 38. In its Comments and Reply, the Company disagrees with Staff's proposed rate design,
8 arguing that it dramatically shifts revenue recovery to the second and third tier residential commodity
9 rates and larger metered customers, does not balance the promotion of conservation with the need for
10 revenue stability, and will increase the likelihood the Company will not recover its authorized
11 revenues. In its Response, Staff states that it remains steadfast in its recommendation for a rate
12 design that provides affordable water service at non-discretionary levels and encourages efficient use
13 of water.

14 39. We find that Staff's rate design appropriately provides affordable water service at non-
15 discretionary levels and encourages efficient water use by adding the additional revenue requirement
16 primarily on usage in excess of 10,000 gallons. The Company will have an opportunity to
17 demonstrate any revenue impact of the rate design in a future rate case filing.

18 40. The current standpipe rate is \$5.00 per thousand gallons. In the application, the
19 Company requested that the standpipe rate be increased to \$7.10. Staff recommends that the
20 standpipe rate be set at \$9.42. In its Reply, the Company states a concern that Staff's proposed
21 standpipe rate would result in the Company having no standpipe customers, and requests that the
22 standpipe rate remain at \$5.00. The Company states that \$5.00 is competitive with other local
23 standpipe water providers. The Company's request for the standpipe rate to remain at \$5.00 per
24 thousand gallons is reasonable and will be granted.

25 41. Livco's proposed rates would increase the average monthly usage (6,211
26 gallons/month) residential customer water bill, on a 5/8 x 3/4-inch meter, by \$9.41, or 36.64 percent,
27 from \$25.67 to \$35.08, and increase the median monthly usage (3,475 gallons/month) residential
28 customer water bill by \$7.11, or 35.19 percent, from \$20.20 to \$27.31.

42. Staff's proposed rates would increase the average monthly usage (6,211 gallons/month) residential customer water bill, on a 5/8 x 3/4-inch meter, by \$6.13, or 23.86 percent, from \$25.67 to \$31.80, and increase the median monthly usage (3,475 gallons/month) residential customer water bill by \$4.10, or 20.30 percent, from \$20.20 to \$24.30.

43. We adopt the rates and charges and the rate design proposed by Staff, with the modification of the Standpipe rate to \$5.00 per thousand gallons as requested by the Company, and the modifications to Staff's recommended monthly usage charges necessary to allow the Company to recover the Rate Case Expense authorized herein.

44. The rates approved herein will increase the average monthly usage (6,211 gallons/month) residential customer water bill, on a 5/8 x 3/4-inch meter, by \$6.38, or 24.85 percent, from \$25.67 to \$32.05, and increase the median monthly usage (3,475 gallons/month) residential customer water bill by \$4.35, or 21.53 percent, from \$20.20 to \$24.55.

Financing Application

45. Livco has applied to WIFA for a loan of \$30,000 to paint the exterior of its 250,000 gallon water storage tank. The financing application includes an assessment of the tank's condition and an estimate for the renovation.

46. Staff states that the Company's proposed capital improvements are appropriate and the Company's cost estimate of \$30,000 for the proposed capital improvements is reasonable. Staff states that it makes no used and useful determination of the proposed plant and no particular future treatment should be inferred for ratemaking or rate base purposes.

47. In order to examine the financial effects of the proposed financing, Staff performed both a DSC² and a TIER³ analysis. Staff determined that for the year ending December 31, 2010, Livco had a DSC and a TIER that are not meaningful. Staff repeated the DSC and TIER analyses

² DSC represents the number of times internally generated cash (i.e., earnings before interest, income tax, depreciation and amortization expenses) covers required principal and interest payments on short term and long term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations.

³ TIER represents the number of times earnings before income tax expense covers interest expense on short term and long term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

1 based instead on Staff's adjusted test year operating results, including the pro forma effect of a
 2 \$30,000, 20-year amortizing loan at 4.50 percent per annum. Staff states that the pro forma TIER and
 3 DSC analyses result in a pro forma 6.64 TIER and 4.87 DSC, showing that Staff's recommended
 4 revenue requirement is sufficient to provide debt service on a fully drawn \$30,000, 20-year
 5 amortizing loan at 4.50 percent per annum.

6 48. Livco's financing request should be approved.

7 **Staff Recommendations**

8 49. Staff recommends approval of its recommended rates and charges.

9 50. Staff also recommends the following:

- 10 • that the Commission authorize Livco to obtain an 18 to 20 year amortizing loan for
 11 an amount not to exceed \$30,000 at a rate not to exceed 5.00 percent, to finance
 the Staff-recommended capital improvements;
- 12 • that approval of the loan be rescinded if the Company has not drawn funds from
 13 the loan within two years of this Decision;
- 14 • that the Company be required to file with the Commission's Docket Control,
 15 within 30 days of this Decision, as a compliance item in this docket, a schedule of
 its approved rates and charges;
- 16 • that the Company be required to continue to monitor its water system for another
 17 full year and report the water loss monitoring results, and that the Company be
 required to file the resulting monitoring report with the Commission's Docket
 Control, within one year of this Decision, as a compliance item in this docket;
- 18 • that the five Best Management Practice ("BMP") tariffs attached as Exhibit BMP
 19 to Staff's Engineering Report be approved;⁴ and
- 20 • that the Company be required to continue to use Staff's typical and customary
 depreciation rates as delineated in Table H-1 of the Engineering Report.⁵

21 **Compliance Issues**

22 51. The Arizona Department of Environmental Quality ("ADEQ") has reported no
 23 deficiencies for Livco and has determined that Livco's water system is currently delivering water that
 24 meets the water quality standards required by A.A.C. Title 18, Chapter 4.

25 _____
 26 ⁴ A copy of Engineering Report Exhibit BMP attached to the Staff Report is attached hereto and incorporated herein as
 27 Exhibit A. Livco states in its Comments and Reply that while it voluntarily agrees with the Staff recommendation to
 implement five BMPs, it believes that a rulemaking is required to require companies to adopt BMPs.

28 ⁵ A copy of Engineering Report Table H-1 attached to the Staff Report is attached hereto and incorporated herein as
 Exhibit B.

1 52. Livco is not within an Arizona Department of Environmental Quality ("ADWR")
2 active management area ("AMA"), and is currently in compliance with ADWR requirements
3 governing water providers and/or community water systems.

4 53. No opinions have been filed either for or against the proposed rate increase or for the
5 requested authority to incur long-term debt.

6 54. According to Staff, Livco has no outstanding compliance issues.

7 55. Staff's review of the Commission's Consumer Services records showed that no
8 complaints were filed with the Commission between January 1, 2008 and August 31, 2011.

9 56. Livco has a Commission-approved curtailment and backflow prevention tariffs.

10 57. Livco is current on its property and sales tax payments.

11 58. Livco is in good standing with the Corporations Division.

12 59. In Decision No. 68751 (June 5, 2006), Livco was ordered to monitor its system and
13 submit a water loss reduction report or detailed analysis and plan to reduce its water loss to 10
14 percent or less. Livco submitted monitoring results in its 2006 Annual Report indicating 21.1 percent
15 water loss, and explaining that the water losses were caused by 20-year old customer meters and a
16 30-year old well meter not registering accurately. In Decision No. 70308, the Commission approved
17 financing for Livco to fund a Water Meter Replacement Program.

18 60. Decision No. 70308 ordered Livco to monitor its gallons of water pumped and sold
19 each month for a year following completion of its Water Meter Replacement Program and to report
20 the monitoring results. The Decision further ordered Livco to prepare a report containing a detailed
21 analysis and plan to reduce water loss to 10 percent or less before filing its next rate increase
22 application, if the reported water loss was greater than 10 percent.

23 61. The Staff Engineering Report states that on November 24, 2009, Livco filed a Water
24 Loss Report showing a water loss of 14.6 percent from November 2008 through October 2009.
25 Because the water loss was greater than 10 percent, Livco also submitted an analysis and plan to
26 further reduce water loss.

27 62. Engineering Staff reported that, during the test year, Livco had a 20.1 percent water
28 loss. Staff therefore requested additional data during its field inspection. Staff states that the

1 Company provided data from November 2010 to June 2011 showing water loss of 8.6 percent. Staff
2 states that the Company is taking corrective action to address its water loss issue by (1) completion of
3 the Water Meter Replacement Program; (2) implementation of a leak identification program; (3)
4 monitoring its system; (4) repairing leaks when found; and (5) providing its best estimate for gallons
5 of unmetered water. Staff states that at times, the Company failed to provide adjustments for the
6 unmetered water, which has resulted in indications of high water loss. Staff states that due to the
7 Company's historic water loss issues, the Company agreed to implement, in addition to its three
8 chosen BMPs, two additional BMP tariffs related to addressing water loss. Staff states that the five
9 BMP tariffs the Company selected promote efficient use of water, and that water use efficiency is in
10 the public interest. Staff states that water use efficiency results in a reduced need to build water
11 utility infrastructure in the future, such as wells, pumps, and storage tanks, and that the reduced need
12 to build water utility infrastructure results in lower water rates in the future for the Company's
13 customers.

14 63. Staff states that it is appropriate for Livco to demonstrate that it is properly
15 monitoring, recording and calculating its water loss. Staff recommends that Livco continue to
16 monitor its water system for another full year and file its water loss monitoring results with Docket
17 Control as a compliance item in this matter within one year of this Decision.

18 **Conclusions**

19 64. Livco should be authorized to obtain an 18 to 20 year amortizing loan from WIFA for
20 an amount not to exceed \$30,000 at a rate not to exceed 5.00 percent, to finance the Staff-
21 recommended capital improvements.

22 65. Approval of the WIFA loan should be rescinded if the Company has not drawn funds
23 from the loan within two years of this Decision

24 66. Livco should be required to file with the Commission's Docket Control, within 30
25 days of this Decision, as a compliance item in this docket, a schedule of its approved rates and
26 charges.

27 67. Livco should be required to continue to monitor its water system for another full year
28 and report the water loss monitoring results, and to file the resulting monitoring report with the

1 Commission's Docket Control, within one year of this Decision, as a compliance item in this docket.

2 68. The Company should be allowed to choose any three BMP Tariffs from the BMP
3 Tariffs set forth in Exhibit A, and should be required to file the three BMP Tariffs with the
4 Commission's Docket Control as a compliance item in this matter within 30 days. Those three BMP
5 Tariffs should be approved.

6 69. Livco should be required to continue to use Staff's typical and customary depreciation
7 rates as delineated in Exhibit B.

8 70. Because an allowance for the property tax expense is included in Livco's rates and
9 will be collected from its customers, the Commission seeks assurances from Livco that any taxes
10 collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the
11 Commission's attention that a number of water companies have been unwilling or unable to fulfill
12 their obligation to pay the taxes that were collected from its ratepayers, some for as many as twenty
13 years. It is reasonable, therefore, that as a preventive measure Livco shall annually file, as part of its
14 annual report, an affidavit with the Commission's Utilities Division attesting that the company is
15 current in paying its property taxes in Arizona.

16 **CONCLUSIONS OF LAW**

17 1. Livco is a public service corporation within the meaning of Article XV of the Arizona
18 Constitution and A.R.S. §§ 40-250, 40-251, 40-301, 40-302, and 40-303.

19 2. The Commission has jurisdiction over Livco and the subject matter of the rate
20 application and the financing application.

21 3. Notice of the financing application and the rate application were provided in the
22 manner prescribed by law.

23 4. The rates and charges authorized herein are just and reasonable and should be
24 approved without a hearing.

25 5. Staff's recommendations as set forth in Findings of Fact No. 50 are reasonable and
26 should be adopted.

27 6. The financing approved herein is for lawful purposes within Livco's corporate powers,
28 is compatible with the public interest, with sound financial practices, and with the proper

1 performance by Livco of service as a public service corporation, and will not impair Livco's ability to
2 perform the service.

3 7. The financing approved herein is for the purposes stated in the application and is
4 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
5 chargeable to operating expenses or to income.

6 8. Approval of the financing does not guarantee or imply any specific treatment of any
7 capital additions for rate base or ratemaking purposes.

8 9. It is reasonable and in the public interest to rescind the financing authority granted
9 herein if the Company has not drawn funds from the loan within two years of the date of this
10 Decision.

11 10. It is reasonable and in the public interest to approve any three BMP tariffs chosen by
12 the Company from the BMP Tariffs set forth in Exhibit A.

13 11. It is reasonable and in the public interest to require Livco to continue to use Staff's
14 typical and customary depreciation rates as delineated in Exhibit B.

15 **ORDER**

16 IT IS THEREFORE ORDERED that Livco Water Company is hereby directed to file with
17 Docket Control, as a compliance item in this docket, by January 30, 2012, revised rate schedules
18 setting forth the following rates and charges:

19 **MONTHLY USAGE CHARGE:**

20 5/8" x 3/4" Meter	\$18.75
20 3/4" Meter	24.00
21 1" Meter	37.00
21 1-1/2" Meter	68.00
22 2" Meter	119.00
22 3" Meter	333.00
23 4" Meter	521.00
23 6" Meter	1,041.00

24 Old Concho Townsite 2" Interconnect 167.00

25 **COMMODITY RATE CHARGE:**

26 Charge per 1,000 gallons

27 **Residential – 5/8" x 3/4" Meter**

27 0 to 3,000 gallons	\$1.50
28 3,001 to 10,000 gallons	2.74

Gallons in excess of 10,000 4.52

Commercial – 5/8" x 3/4" Meter

0 to 10,000 gallons 2.74

Gallons for gallons in excess of 10,000 4.52

Commercial & Residential – 3/4" Meter

0 to 10,000 gallons 2.74

Gallons in excess of 10,000 4.52

Commercial & Residential – 1" Meter

0 to 24,000 gallons 2.74

Gallons in excess of 24,000 4.52

Commercial & Residential - 1-1/2" Meter

0 to 60,000 gallons 2.74

Gallons in excess of 60,000 4.52

Commercial & Residential - 2" Meter

0 to 150,000 gallons 2.74

Gallons in excess of 150,000 4.52

Old Concho Townsite 2" Interconnect

0 to 400,000 gallons 2.74

Gallons in excess of 400,000 4.52

Commercial & Residential - 3" Meter

0 to 500,000 gallons 2.74

Gallons in excess of 500,000 4.52

Commercial & Residential - 4" Meter

0 to 830,000 gallons 2.74

Gallons in excess of 830,000 4.52

Commercial & Residential - 6" Meter

0 to 1,750,000 gallons 2.74

Gallons in excess of 1,750,000 4.52

Standpipe, Bulk Water

All gallons 5.00

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable Pursuant to A.A.C. R14-2-405)

	<u>Service Line</u>	<u>Meter</u>	<u>Total Charges</u>
5/8" x 3/4" Meter	\$445.00	\$155.00	\$600.00
3/4" Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00
2" Turbine Meter	830.00	1,045.00	1,875.00
2" Compound Meter	830.00	1,890.00	2,720.00
3" Turbine Meter	1,045.00	1,670.00	2,715.00
3" Compound Meter	1,165.00	2,545.00	3,720.00
4" Turbine Meter	1,490.00	2,670.00	4,160.00
4" Compound Meter	1,670.00	3,645.00	5,315.00
6" Turbine Meter	2,210.00	5,025.00	7,235.00
6" Compound Meter	2,330.00	6,920.00	9,250.00

SERVICE CHARGES:

Establishment	\$25.00
Reconnection (Delinquent)	40.00
Service Charge (After Hours)	30.00
Meter Test (If Correct)	25.00
Deposit	*
Deposit Interest	*
Re-establishment (Within 12 months)	**
NSF Check	\$25.00
Deferred Payment	1.50%
Meter Re-Read (If Correct)	\$20.00
Late Payment Penalty – per month	1.50%
Moving Customer Meter (Customer Request)	***
4" or Smaller	****
6"	****
8"	****
10"	****
Larger than 10"	****

* Per Commission Rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

*** Per Commission Rule A.A.C. R14-2-405.

**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after February 1, 2012.

IT IS FURTHER ORDERED that Livco Water Company shall notify its customers of the rates and charges authorized herein and their effective date, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing.

IT IS FURTHER ORDERED that, in addition to collection of its regular rates and charges, Livco Water Company shall collect from its customers a proportionate share of any privilege, sales or use tax per A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that Livco Water Company is hereby authorized to obtain from WIFA an 18 to 20 year amortizing loan for an amount not to exceed \$30,000 at a rate not to exceed 5.00 percent, to finance the capital improvements recommended by Staff.

IT IS FURTHER ORDERED that Livco Water Company is hereby authorized to engage in any transaction and to execute any documents necessary to effectuate the WIFA debt authorization granted herein.

1 IT IS FURTHER ORDERED that Livco Water Company shall, within 60 days after the date
2 of execution, file with Docket Control, as a compliance item in this docket, copies of all executed
3 financing documents related to the WIFA debt authorization granted herein.

4 IT IS FURTHER ORDERED that any unused debt authorization granted in this proceeding
5 shall terminate on January 31, 2014.

6 IT IS FURTHER ORDERED that Livco Water Company shall continue to monitor its water
7 system for a full year and shall file the water loss monitoring results with the Commission's Docket
8 Control, within one year of this Decision, as a compliance item in this docket.

9 IT IS FURTHER ORDERED that Livco Water Company shall choose any three BMP Tariffs
10 from the BMP Tariffs set forth in Exhibit A, and shall file the three BMP Tariffs with the
11 Commission's Docket Control as a compliance item in this matter within 30 days, and that those
12 three BMP Tariffs are hereby approved.

13 IT IS FURTHER ORDERED that Livco Water Company shall continue to use Staff's typical
14 and customary depreciation rates as delineated in Exhibit B.

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IT IS FURTHER ORDERED that Livco Water Company shall file annually, as part of its annual report, an affidavit with the Commission's Utilities Division attesting that it is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

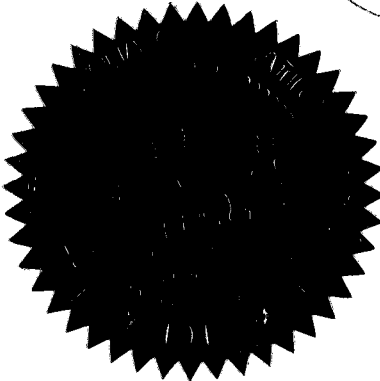
[Signature]
CHAIRMAN

[Signature]
COMMISSIONER

[Signature]
COMMISSIONER

[Signature]
COMMISSIONER

[Signature]
COMMISSIONER



IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 20th day of JANUARY, 2012.

[Signature]
ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: LIVCO WATER COMPANY
2 DOCKET NOS.: W-02121A-11-0213 and W-02121A-11-0257
3

4 Jenni Wicks
5 LIVCO WATER COMPANY
6 P.O. Box 659
7 Concho, AZ 85924-0659

8 Steve Wene
9 MOYES SELLERS & HENDRICKS LTD.
10 1850 North Central Avenue, Suite 1100
11 Phoenix, AZ 85004
12 Attorneys for Livco Water Company

13 Janice Alward, Chief Counsel, Legal Division
14 ARIZONA CORPORATION COMMISSION
15 1200 West Washington Street
16 Phoenix, Arizona 85007-2927

17 Steve Olea, Director, Utilities Division
18 ARIZONA CORPORATION COMMISSION
19 1200 West Washington Street
20 Phoenix, Arizona 85007-2927
21
22
23
24
25
26
27
28

EXHIBIT A

Exhibit - BMPs

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Local and/or Regional Messaging Program Tariff – BMP 1.1

PURPOSE

A program for the Company to actively participate in a water conservation campaign with local or regional advertizing (Modified Non-Per Capita Conservation Program BMP Category 1: Public Awareness/Public Relations 1.1: Local and/or Regional Messaging Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company or designated representative shall actively participate in water conservation campaign with local and/or regional advertising.
2. The campaign shall promote ways for customers to save water.
3. The Company shall facilitate the campaign through one or more of the following avenues (not an all inclusive list):
 - a. Television commercials
 - b. Radio commercials
 - c. Websites
 - d. Promotional materials
 - e. Vehicle signs
 - f. Bookmarks
 - g. Magnets
4. The Company shall keep a record of the following information and make it available to the Commission upon request.
 - a. A description of the messaging program implemented and program dates.
 - b. The number of customers reached (or an estimate).
 - c. Costs of Program implementation.

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Customer High Water Use Inquiry Resolution Tariff – BMP 3.6

PURPOSE

A program for the Company to assist its customers with their high water-use inquiries and complaints (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.6: Customer High Water Use Inquiry Resolution).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle high water use inquiries as calls are received.
2. Calls shall be taken by a customer service representative who has been trained on typical causes of high water consumption as well as leak detection procedures that customers can perform themselves.
3. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to the customer's residence to conduct a leak detection inspection and further assist the customer with water conservation measures.
4. The Company shall follow up in some way on every customer inquiry or complaint and keep a record of inquiries and follow-up activities.

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Leak Detection Program Tariff – BMP 4.1**PURPOSE**

A program for the Company to systematically evaluate its water distribution system to identify and repair leaks (Modified Non-Per Capita Conservation Program Best Management Practice Category 4: Physical System Evaluation and Improvement 4.1 Leak Detection Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall implement a comprehensive leak detection and repair program to attain and maintain a less than 10 percent unaccounted for water loss in its system(s). The program must include auditing procedures, in-field leak detection and repair efforts. The Company shall take whatever steps are necessary to ensure that its water system is operating at optimal efficiency.
2. On a systematic basis, at least every two years (annually for smaller systems), the Company shall inspect its water distribution system (to include hydrants, valves, tanks, pumps, etc. in the distribution system) to identify and repair leaks. Detection shall be followed by repair or in some cases replacement. Repair vs. replacement will depend upon site-specific leakage rates and costs.
3. Leak Detection efforts should focus on the portion of the distribution system with the greatest expected problems, including:
 - a. areas with a history of excessive leak and break rates;
 - b. areas where leaks and breaks can result in the heaviest property damage;
 - c. areas where system pressure is high;
 - d. areas exposed to stray current and traffic vibration;
 - e. areas near stream crossings; and,
 - f. areas where loads on pipe may exceed design loads.
4. The Company shall keep accurate and detailed records concerning its leak detection and repair/rehabilitation program and the associated costs. Records of repairs shall include: possible causes of the leak; estimated amount of water lost; and date of repair. These records shall be made available to the Commission upon request.

5. The Company shall maintain a complete set of updated distribution system maps.
6. The Company shall conduct a water audit annually which includes the following steps to determine how efficient each water system is operating and where the losses might be.
 - a. Use coordinated monthly source and service meter readings to calculate how much water enters and leaves the system during the 12 month review period.
 - b. Track and estimate any unmetered authorized uses.
 - c. Calculate the total amount of leakage using the following formula:

$$\text{Unaccounted for water (\%)} = [(\text{Production and/or purchased water minus metered use \& estimated authorized un-metered use}) / (\text{Production and/or purchased water})] \times 100$$
 - d. Authorized un-metered uses may include firefighting, main flushing, process water for water treatment plants, etc. Water losses include all water that is not identified as authorized metered water use or authorized un-metered use.
 - e. Determine possible reasons for leakage, including physical leaks and unauthorized uses.
 - f. Analyze results to determine the improvements needed, such as, better accounting practices, leak survey or replacing old distribution pipes.
7. The Company shall keep accurate and detailed records concerning its annual water audit results. These records shall be made available to the Commission upon request.

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

Meter Repair and/or Replacement Tariff – BMP 4.2

PURPOSE

A program for the Company to systematically assess all in-service water meters (including Company production meters) in its water service area to identify under-registering meters for repair or replacement (Modified Non-Per Capita Conservation Program Best Management Practice Category 4: Physical System Evaluation and Improvement 4.2 Meter Repair and/or Replacement Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. On a systematic basis, the Company will inspect 100 percent of its 1-inch and smaller in-service water meters at least once every ten years for one of the following reasons (whichever occurs first):
 - a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
 - b. A meter has registered 1,000,000 gallons of usage,
 - c. A meter has been in service for ten years.
2. Meters larger than 1-inch shall be inspected for one of the following reasons:
 - a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
 - b. A meter has been in service for five years.
3. The inspection will be accomplished by having the meter pulled and having a Company Technician physically inspect each meter and its fittings for leaks, registers which may have become loose or are not properly attached to the meter and could be under-registering or other broken parts which need repair. In addition, meters shall be randomly selected for flow testing to identify potentially under-registering meters.
4. The Company shall also replace or reprogram any water meters that do not register in gallons. Within 5 years of the initial effective date of this tariff, the Company shall install all replacement meters with new:
 - a. 1-inch and smaller meters that register in 1 gallon increments,
 - b. 1-1/2-inch through 4-inch meters that register in 10 gallon increments, and

- c. 6-inch and larger meters that register in 100 gallon increments.
5. The Company shall keep records of all inspected and replacement meters and make this information available to the Commission upon request.

Company: _____

Decision No.: _____

Phone: _____

Effective Date: _____

WATER SYSTEM TAMPERING TARIFF – BMP 5.2**PURPOSE**

The purpose of this tariff is to promote the conservation of groundwater by enabling the Company to bring an action for damages or to enjoin any activity against a person who tampers with the water system.

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission, specifically Arizona Administrative Code ("AAC") R14-2-410 and the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. In support of the Company's water conservation goals, the Company may bring an action for damages or to enjoin any activity against a person who: (1) makes a connection or reconnection with property owned or used by the Company to provide utility service without the Company's authorization or consent; (2) prevents a Company meter or other device used to determine the charge for utility services from accurately performing its measuring function; (3) tampers with property owned or used by the Company; or (4) uses or receives the Company's services without the authorization or consent of the Company and knows or has reason to know of the unlawful diversion, tampering or connection. If the Company's action is successful, the Company may recover as damages three times the amount of actual damages.
2. Compliance with the provisions of this tariff will be a condition of service.
3. The Company shall provide to all its customers, upon request, a complete copy of this tariff and AAC R14-2-410. The customers shall follow and abide by this tariff.
4. If a customer is connected to the Company water system and the Company discovers that the customer has taken any of the actions listed in No. 1 above, the Company may terminate service per AAC R14-2-410.
5. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

EXHIBIT B

Table H-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	20	5.00